

Toward a 'renewing' economic policy for the new economy

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Notes

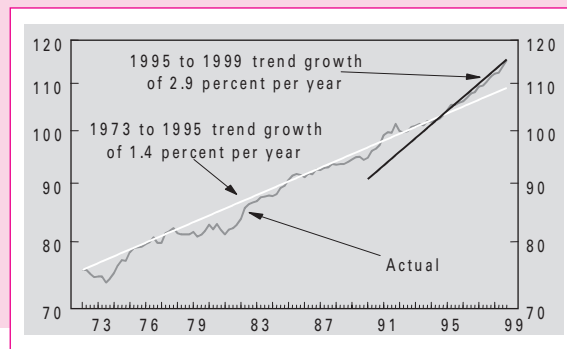
¹ Draaisma *et al.* rightly point to the fact that in CPB's midterm scenarios for the 1999-2002 period, the (nominal) interest rate in the cautious scenario was above the level in the favourable scenario. In this analysis, CPB chose a consistent cautious scenario that contained a considerable amount of budgetary risks. It is also possible to build a consistent prosperous economic scenario with relatively high interest rates.

Toward a 'renewing' economic policy for the new economy

Luc Soete and Bas ter Weel¹

For the first time, CPB's Central Economic Plan focuses on the consequences of Information and Communication Technology (ICT) for macroeconomic development and public policy. "The 'renewing' economy," the title chosen by Gelauff and de Bijl, is probably meant to indicate that the Dutch CPB is as yet not fully converted to the new economy. We don't mind, welcome anyway to the club of believers that something "new" has happened to the economy. The reader, we suggest, couldn't care less whether the developments in the United States point to a *renewing* economy or a *new* economy. For Dutch Calvinists readers though, we do remain strong adherents of the concept of a 'new economy' with or without capital letters. Not only has the concept of the 'new economy' become an accepted standard concept, increasingly used in (inter-)national policy circles from national banks to OECD, but also the macroeconomic developments in the United States increasingly indicate that there has indeed been an accelerated growth in productivity since the fourth quarter of 1995. Figure 1, for example, shows the trend in productivity in the non-farm sector in the US in the period 1973-1999. The average productivity growth in the period 1973-1995 was 1.4%, and increased abruptly to 2.9% thereafter². According to many commentators, such as Alan Greenspan, this break actually coincides with the use and diffusion of the Internet in the US having reached sufficient critical mass levels somewhere around the end of the fourth quarter of 1995. Based on studies such as the one by Robert Gordon, CPB claims that this represents actually only a limited structural acceleration of productivity growth in the US based entirely on productivity growth achieved in the computer and software industries.

Figure 1 Productivity in the US in the Nonfarm Business Sector (index 1992 = 100)



However, recent studies from the Washington Federal Reserve Bank (Oliner and Sichel), the US Department of Commerce and the OECD have revealed a much broader and significant increase in productivity growth in the US, closely associated with widespread use of ICT across both industrial and service sectors. The most recent report of the OECD even talks of the end of the so-called Solow paradox, ICT diffusion finally showing up in US productivity growth statistics.

But regardless of who is right here, we obviously agree with Gelauff and de Bijl, that based on data available for the Netherlands, there has been no such evidence for the Netherlands. Dutch productivity has not grown at all: in the 1995-1998 period, macro labour productivity increased by an average of 0.75 percent annually. In sectors such as commercial service provision, productivity growth has even diminished. In a country where "work, work and work again" was the most successful political ambition of the 1990s, it is not really surprising that the growth in aggregated labour productivity becomes, in time, as flat as its polder landscape.

It is from this perspective that the paper of Gelauff and de Bijl is actually most disappointing and illustrative of CPB's duality with respect to possible evidence on the new or renewing economy. Indeed, reading the policy conclusions of the paper, one gets the impression that even if there was evidence of a new economy productivity trend, it would barely alter the general economic policy view. Indeed, the only policy conclusions the authors put forward is a vague list of "issues that require closer attention." One may indeed wonder what the value to policy-makers might be of "the combination of a sober and open vision with regard to the impact of ICT on public policy," which "is also appropriate for the renewing economy."

From this point of view, the half conversion of CPB to the renewing economy appears rather contra-productive: the authors have in the end a surprisingly superficial view of what a full new economy trend might have to offer to a country such as the Netherlands in terms of domestic policy challenges. And this is where we differ most clearly with the authors. For us, the "renewing" policy challenge for the new economy is simple enough, departing from the following central question. How can the Netherlands

achieve an acceleration of its measured labour productivity growth that will, just as in the case of the US, eventually translate higher realised growth into a more efficient use of ICT? How can the Netherlands convert its extensive, labour-expanding growth process of the 90's – which is bound to lead to tensions in the labour market soon – into a growth process based on labour productivity growth? Hence, and in spite of the continued large group of “non-actives” in the Dutch labour force that obviously have to become activated, how can we start tackling the problem of low measured labour productivity growth, which is (at least according to official figures) still lagging behind compared to the neighbouring countries? This is exactly where knowledge-intensive growth and ICT come in, allowing employees to make better use of their potential capacities, cutting right across the labour market. From this perspective, existing labour market shortages signal the most urgent needs for additional training. The existing formal, high level of “overeducation” in the Netherlands actually offers the possibility to fill these gaps using focussed training programmes. This could well lead to some sort of “suction power” within the labour pyramid, comparable with that pull inside a chimney, which contrasts with the “displacement” effect of the 1980s, where high unemployment generally led to the exclusion of lower qualified workers by higher qualified personnel, and where overeducation was the rule.

There is, of course, also a part of the potentially higher efficiency and cost reduction with regard to the use of ICT that cannot and might possibly never be found back in productivity statistics. Particularly in the services sector, the initial phase of ICT use led to computers being used at virtually all workplaces and to an enormous expansion in terms of the type and differentiated nature of products and services. In this context, it is important to stress that ICT is in first instance conducive to growth, rather than just cost-saving. This is shown, among other things, by CPB figures: the Dutch ICT sector accounts for only five percent of total production, while realising seventy-five percent of total growth – high time then, to change the current economic policy track. In the new economy there is not merely a need for an “activation” of the labour force for fear of running into wage-induced inflationary pressures and other labour market shortages; there is also a strong need for the “activation” of learning and participation of all sorts: of education, of training and other forms of human capital formation. Ultimately, labour creation cannot be a societal goal in itself – but more income, a more efficient use of scarce resources with more time to spend on consumption, on free time, and on a better informed fulfilment of unsatisfied needs, surely can.

Notes

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² We thank the Department of Commerce for providing us with the data in Figure 1.

How troublesome are falling R&D investments?

Bas ter Weel*

In *CPB Report 2000/1*, Creusen and Minne (2000) analyse the innovative efforts of the oil industry in the Netherlands over the past decades. Their thoughtful and well-executed analysis on this important topic reveals that oil companies are reluctant to commit themselves to risky projects to improve their market position and to introduce radically new products. Policymakers should be aware that this fall in innovative effort is real (from about three billion US\$ in 1984 to less than 2 billion US\$ in 1997) and is slowing down the search for new and more environmentally friendly technologies and energy sources.

Although their useful and timely study is convincing, some results have to be dealt with cautiously and several questions remain. For example, when investigating the decline in innovative effort by an analysis of creditworthiness and the availability of internal funds, researchers face certain econometric problems that may cause serious doubts about the validity of the results. The finding that internal funds and creditworthiness are positively correlated with R&D investments relies on information problems at the hands of external financiers and collateral. The regression carried out therefore suffers from the so-called endogeneity problem, because larger internal funds will of course lead to higher importance of these funds in investment, and may even lead to higher levels of absolute investment. Second, taking into account only internal funds and creditworthiness is not often seen in the literature. Given the low levels of explanatory value, the authors should consider other variables influencing investment. In line with Tobin's q-effect, these variables include profitability, investment opportunities, sales growth and profits. These variables could be used as instruments in the analysis to show that the coefficients found are existent and real.

Such an elaborate test may also refute to some extent the result that internal funds are not more important than external financing (which is in general not observed with risky projects like R&D investment). The results are there-

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